

FISCAL NOTE

Bill #: HB0324

**Title: An act creating a catastrophic coverage
and medical care savings account plan for
State Employee Group Benefits**

Primary

Sponsor: Matt Brainard

Status: As introduced

Sponsor signature	Date	Dave Lewis, Budget Director	Date
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Fiscal Summary

	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
Expenditures:		
General Fund	32,260	32,260
Other Funds	48,392	48,392
Other – Proprietary insurance fund	831,600	898,128
Revenue:		
General Fund	0	0
Other Funds	0	0
Other – Proprietary insurance fund	0	0
Net Impact on General Fund Balance:	(\$32,260)	(\$32,260)

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	x	Significant Local Gov. Impact	x		Technical Concerns
	x	Included in the Executive Budget	x		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS

1. Monthly premiums supplied by the Buck consulting firm for a \$5,000 deductible catastrophic insurance plan are: \$85 – employee only; \$170 – employee and spouse; \$149 – employee and children; \$234 full family and \$89 for joint core.

(continued)

2. State contribution of \$270/employee per month less premium costs of mandatory core dental and core life benefits (\$18.60 for employee dental and \$2.76 for employee life) leaves \$248.64 of the state contribution available for medical benefits. State contribution available for medical benefits less catastrophic insurance premiums above leaves: \$163.64/mo. for employees with employee only coverage; \$78.64/mo. for employees with employee spouse coverage; \$99.64/mo. for employees with employee children coverage; \$14.64/mo. for employees with full family coverage; and \$159.64/mo. for employees with joint core coverage.
3. Available monthly state contribution is placed in a medical savings account (MSA) and is subject to federal income tax and FICA/Medicare tax at an effective tax rate of 15% .
4. After taxes are applied to the above monthly contributions available for a MSA, the number of months required to reach a \$5,000 MSA accumulation, in the absence of any medical expenses, are 34 months for employees with employee only coverage; 65 months for employees with employee and spouse coverage; 53 months for employees with employee and children coverage; 237 months for employees with full family coverage; and 34 months for employees with joint core coverage.
5. Optimistically, 5% of the 10,780 active employee members of group insurance will elect the catastrophic insurance/MSA option. ($10,780 \times .05 = 539$)
6. The majority of employees who elect the catastrophic insurance/MSA option will be from the 4,093 employees with employee only coverage (with a few from the 806 employees with joint core coverage) since only employees with these coverages can accumulate \$5,000 in their MSA in under three years. Their average before-tax contribution will be \$163/month; \$87,857/month for all 539 participants and \$1,054,284/yr.
7. The State FICA match of 7.65% on \$1,054,284 is \$80,653. Forty percent of employer FICA is general fund, with the balance from other funds.
8. The average health risk of the 539 individuals who elect the catastrophic insurance/MSA option will be approximately 30% of the entire group's average health risk. Their departure will increase the average health risk of remaining plan members by approximately 3.65%. This increased average health risk costs an average of \$6.265 more per month per remaining plan member in FY 1999; \$64,166 per month for all 10,242 remaining members; \$770,000 for the year.
9. The above costs of \$770,000 for adverse selection and \$80,653 for the state FICA match are based on FY 1999 figures. Adverse selection costs will reach \$831,600 in FY 2000 and \$898,128 in FY 2001 with the 8% medical claims costs inflation rate.
10. Administration costs for MSAs will be the same as for similar Flexible Spending Accounts (FSAs) currently available to state employees and will be borne by the employees at \$2.30/mo./ \$27.60 per year per participant or \$14,876 for 539 participants in FY 1999. Assuming a 5% annual increase in administration costs, these will reach \$15,620 in FY 2000 and \$16,401 in FY 2001. Administration costs of tax withholding on a portion of state contribution are unknown.

FISCAL IMPACT:

	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
<u>Expenditures:</u>		
Personal Services (Employer FICA)	80,653	80,653
Op. Expenses (Paid by Employees)	15,620	16,401
Benefits	<u>831,600</u>	<u>898,128</u>
TOTAL	927,873	995,182

Funding:

General Fund (01)	32,260	32,260
Other Fund (02, 03, misc 06)	48,393	48,393
Other – Proprietary Insurance Fund	831,600	898,128
Other – Employee Payments	<u>15,620</u>	<u>16,401</u>
TOTAL	927,873	995,182

Revenues:

General Fund (01)	0	0
Other Funds (02, 03, misc 06)	0	0
Employees Payments	15,560	16,401

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	(\$32,260)	(\$32,250)
Other Funds (02, 03, misc 06)	(\$48,393)	(\$48,393)
Other -- Proprietary Insurance fund	(831,600)	(898,128)

LONG-RANGE IMPACTS:

State and employee contributions for health benefits would have to increase to cover the deficiencies in the insurance fund.

TECHNICAL NOTES:

It appears that Federal Income and Social Security taxes would have to be withheld from the portion of state insurance contribution placed in a Medical Savings Account (MSA). Withholding on a portion of the state insurance contribution would create a new payroll requirement.